

VZCZCXRO2910
PP RUEHDBU RUEHDH RUEHFL RUEHHM RUEHKW RUEHLA RUEHNP RUEHPB RUEHROV
RUEHSR RUEHTM RUEHTRO
DE RUEHSL #0526/01 3561415
ZNY CCCCC ZZH
P R 221415Z DEC 09
FM AMEMBASSY BRATISLAVA
TO RUEHC/SECSTATE WASHDC PRIORITY 0313
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RHEHAAA/NSC WASHINGTON DC
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHINGTON DC
RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEHSL/AMEMBASSY BRATISLAVA 0367

C O N F I D E N T I A L SECTION 01 OF 02 BRATISLAVA 000526

SIPDIS

STATE FOR EUR/CE M. LIBBY AND J. MOORE

E.O. 12958: DECL: 12/20/2019

TAGS: [ENRG](#) [EINV](#) [ECON](#) [PGOV](#) [LO](#)

SUBJECT: THE FUTURE OF SLOVAKIA'S SOLAR POWER INDUSTRY GROWS EVEN
DIMMER

REF: BRATISLAVA 509

BRATISLAVA 00000526 001.2 OF 002

CLASSIFIED BY: Susan Ball, Charge d'Affaires.

REASON: 1.4 (d)

SUMMARY

11. (SBU) Fears about a lack of transparency and openness in Slovakia's renewable energy industry were realized last week, as the government-owned power grid operator (SEPS) approved a list of solar power projects and announced that nothing further will be approved at least two years. The application process conducted by SEPS was poorly advertised and almost completely non-transparent, fueling widespread suspicion that it was rigged to benefit certain individuals. Combined with a proposal to expand SEPS' authority over the solar power industry (reftel), this move will likely close the industry--and its expected high profits--to anyone outside the small group of investors who received approval last week. Additionally, the move all but ensures that alternative energies, such as solar and wind, will remain an insignificant part of Slovakia's energy industry for the foreseeable future. END SUMMARY.

RESETTING SOLAR PROJECTS

12. (SBU) After dragging its feet for the better part of a year, SEPS announced on November 29 that it had summarily rejected all solar power plant applications submitted to that point, and that the application process would be restarted from scratch five days later on a first-come-first-served basis. The announcement was quietly placed at the bottom corner of SEPS website, and Peter Badik, a partner in MyEnergy, a solar energy start-up, told us that none of the established solar power entrepreneurs in Slovakia knew anything about it until a local newspaper reported the website announcement late the evening of Friday, November 30. Even those companies fortunate enough to see the news that night had little more than a weekend to complete a lengthy application and secure the necessary documentary evidence. In the end, SEPS only accepted applications for part of one day, announcing later that all submissions arriving after that point were being returned unopened.

13. (SBU) Miroslav Gramblicka, the Director of Development at SEPS, explained to us that the grid operator had been inundated with applications over the past year, and that the only practical and fair thing to do was to return what it had

received and start over. Few agree with this assessment. Karel Hirman, the Director of Energy Policy at the Slovak government's energy think tank, told us that SEPS' handling of the application process was "absolutely wrong" and was intended to reduce transparency. Badik, whose company was fortunate enough to have two projects approved, called the process a "joke" and questioned how SEPS could possibly have been able to review 57 applications within a week (it approved 36 projects totaling 120MW and rejected 21).

CAN'T TELL THE PLAYERS WITHOUT A SCORECARD

¶4. (SBU) Many of the projects approved by SEPS raise further questions. Martina Kolesarova, a renewable energy NGO project manager who has been working with prominent solar power entrepreneurs in Slovakia to establish an industry group, told us that 27 of the 36 approved projects involved companies she had never heard of before. Many of these seem to be little more than shell companies. One winner, the CTC Tennis Club, based in Presov in Eastern Slovakia, lacks even a phone line. While it has licenses allowing it to sell vegetarian food and provide car rentals, the business is not licensed to build or operate a solar power plant--or, for that matter, a tennis club.

¶5. (C) A reliable source close to the power industry alleged to us that the industry has been rigged by the highest levels of government to benefit Jozef Brhel, one of a group of wealthy Slovak businessmen widely thought to bankroll--and benefit from--PM Robert Fico's Smer political party. The consultant told us that earlier this year, Fico personally told Minister of Economy Lubomir Jahodatek to slow preparation of the Renewable Energy law in order to allow the regulatory agency (URSO) an opportunity to provide input. Two days later, we were told, URSO presented its own completed version of the law, which was offered in place of the draft law Jahodatek's ministry had been working on for more than a year. This law--along with generous feed-in tariffs offered for solar power--created a regulatory regime ensuring enormous profits for anyone able to develop a

BRATISLAVA 00000526 002.2 OF 002

solar power plant, and the consultant told us that SEPS is using its control of the permitting process to ensure that Brhel-backed projects will dominate the industry. Two other sources--including MyENERGY's Badik--have corroborated part of this story, telling us it is "well-known" that SEPS is controlled by close associates of Brhel.

QUESTIONS ABOUT GRIDS

¶6. (SBU) Another consequence of SEPS's recent moves is that solar power--and alternative energy, more broadly--is unlikely to produce a significant portion of Slovakia's electricity in the foreseeable future. SEPS has now set a firm cap of 120MW for large solar power plants, and the Slovak government is poised to enact legislation that would effectively extend this cap to all solar power projects (reftel). Gramblicka of SEPS explained to us in great detail how peculiarities of Slovakia's electricity industry complicate load-balancing and thereby prevent the grid from incorporating large amounts of non-dispatchable energy, such as solar and wind. Several in the solar industry have challenged this assertion, although they have not been able to provide us with a technical critique of SEPS's argument. Either way, the cap appears unlikely to change anytime soon--and in fact, the amount of solar power actually installed in the next two years will likely be somewhat lower than 120 MW, as there does not appear to be any mechanism to replace projects that fail to materialize.

COMMENT: MORE UNPREDICTABILITY

¶7. (SBU) Slovakia's renewable power industry is already trailing behind its Czech and Austrian neighbors; the huge wind farms lining the farmland between Vienna and Bratislava stop abruptly at the border, as do the solar arrays scattered across Moravia's hillsides. Now that renewable energy prices are set to produce profits, it would seem that the industry here is primed to take off. But no: solar power at least appears to be in line for a lackluster start, whether because of an inflexible grid, an unimaginative regulator who would rather limit the contribution of renewables than re-engineer the grid, an opaque process for awarding permits to cronies, or--most likely--a combination of the three.

¶8. (C) The Fico government has long since established a trend toward ever-murkier regulation and a determination to slant the economic playing field in its friends' direction. It may seem incidental to point out that underlying this trend is a fundamental hostility toward private players in "strategic" industries. Given a real strategic political concern about energy security, and a conviction that renewables will not change the strategic equation noticeably, the government's attitude has predictably gone in a "who cares?" direction. There is, in this view, nothing much at stake except a rent-seeking opportunity for friends. What this means for investors is a new level of unpredictability as they compete with favored insiders and a government that doesn't care about real results.

BALL